

INDIAN FINANCIAL MARKET – REFORMS AND FUTURE PROSPECTS

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ABSTRACT

Financial market is a market for buying, selling and dealing in financial instruments. Capital market is the marketplace where monetary tools have a lifetime of over annually will be issued and traded. The development of any market is directly connected with the capital available for a company to innovate and also establish its own company thing. This creates the capital market place crucial in the growth situation of almost any nation at any component of the continent. Introduction of new goods also helped in supporting possible investors (domestic and foreign) to Indian monetary system. This article talk about the paradigm change occurred in Indian financial marketplace, the shifting function of the ruler, the rights of Retail Investors and also the broad array of merchandise offered from the financial sector. The post also discusses important scams which shocked the sector and investor views from the recent years with the aim to prevent such situations in future.

KEYWORDS: Financial Market, Money, Market, Capital Market, SEBI, IPO, Investor Empowerment & Stock Market Scam

INTRODUCTION

The policy of LPG (Liberalization, Privatization and Globalization) backed by New Industrial Policy of then Union Ministry of India headed by Mr. P V Narasimha Rao, not only changed the Indian business in total but also positively influenced the India's financial market. India moved from a controlled license raj system to an open and free economy backed by investor confidence and trust. Controller of Capital Issues is replaced by SEBI and the role of regulator is shifter from just controlling and monitoring to positively contributing to the development of the market as a whole. This shift not only helped in doing the business easy but also gave a positive outlook to the external world regarding the business environment in India. This in turn reflected in the inflow of Foreign Direct Investment and Foreign Portfolio Investment.

LITERATURE REVIEW

Ajay Shah, The Indian IPO Market: Empirical Facts, Social Science Research Network, 1995

This article studies the return that an investor received form IPO. The author had studied 2056 IPOs between January 1991 and April 1995. The article targets the returns of an IPO investor who sells his stake immediately after the shares are getting listed. The returns is compared with the market return i.e. SENSEX. The author proves that IPO returns during the above mentioned period gave a return to the investors which is much higher than the market return available at the same time.

P K Mishra, K B Das, B B Pradhan, The Role of FII in Indian Capital Market, The Research Network, 2009

This article studies the growth in the foreign inflow of money to Indian financial market. The article states that the new industrial policy paved the way for increase in foreign investment in India especially in the form of FIIs in the

financial market. This money inflow created volume in the market and helped a lot in improving BSE index. The author also points out the increasing role of FII in determining the volume and demand of shares. In other words, companies are trying to be the favorite of FII to have a significant movement in its share price. The author feels that this can lead to unhealthy market environment and sharp market movements (positively and negatively) in future.

M V Subha, Indian Capital Market – A Road Ahead, Indian Journal of Marketing, 2003

This article discussed the classes of investors in capital market, their investment objective, expected returns and the risk profile. The author is of the view that information plays the crucial role in return and in long run majority of retail investors, who has limited information compare to an institutional investor, may tend to invest more in mutual funds compared to equity market. The article states that this trend already happened in developed equity markets and is expected to happen in Indian market also.

International Financial Market

International financial market is an international platform where financial instruments are bought, sold and exchanged. The financial instruments traded in international financial market is either having an international exposure or the parties involved will be from more than one geographical boundary. International financial markets could be essentially divided into two sections; viz., worldwide banking solutions and global money marketplace. The finance services include the professional facilities such as transaction funding, overseastrade, overseas investment, and hedging tools such as forward and options, etc. All these finance services are provided by global tierslike City Bank, Bank of America, HSBC, etc.

Any global businesses will have routine communications in overseas currencies and so possess payables or money in such monies. To close such trades the businesses need foreign exchange that's supplied by international institutions and banks. Presently US Dollar and Euro function as the money that I was used to settlebulk of international trades and also utilized as reserve money ofalmost all of the developed in addition to developing markets.

International Money Market

Worldwidecurrency exchange largely deals in Euro currency residue, Euro credits, Euronotes, and Euro Commercial Papers etc. These include foreign monies. Euro currency deposits are deposits of foreigncurrency in a bank situated in a nation that differs in the state of their foreign currency. A depositing US bucks in Chinese lender located in China is called Euro currency payment. Euro credits are a kind of lend expanded to businesses in a cash aside from the home monies. These are generally short term into themedium-term lend and also therefore are prolonged by means of a syndicate of banks because theconsiderable of lend is too immense and the danger cannot be presumed only by one creditor.

International Capital Market

Capital market is the market where financial instruments having a life of more than one year is issued and traded. International capital market provide a platform for MNCs to explore and raise finance from a geographical area outside its area of incorporation. This source of fund is highly required to produce a product or deliver a service which is expected to meet international standard. Worldwide financing market is the marketplace wherecurrencies monies, debentures, bonds, hedge funds, mutual funds and other long-term securities are purchased and sold. It supply the stage, that is a genuine platform or an electronic platform for global investors and businesses to take part in shares and bonds of distinct countries.

The equity market is just one component of the global capital market. Bond market plays a major role in global financing. Bonds indirectly control the growth of real economy as well as financial market of almost all developed and developing economies in the world. The liquidity and security that the bonds offer qualifies it as the most dependable investment instrument.

Indian Financial Market

Indian financial market is dominated by equity market. The scope of bond market and debt market is limited in India till recently. Subprime crisis and crash of equity market worldwide has created a market for debt instruments in India also. It's in the growth stage and in future along with equity instruments like shares and mutual funds debt instruments like bonds along with money market instruments is expected to play a major role in Indian capital market also.

Stock Exchanges and IPOs

National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are the two stock exchanges which manage and give platform for the trade of financial instruments. BSE is the first stock exchange in India and is leading in market capitalization while NSE dominates in trading volume. Central Depository Services Ltd (CDSL) and National Securities Depository Services (NSDL) are the depositories which permit inter depository transfer gives liquidity in the market and excellent price realization. SENSEX and NIFTY are the main indices of BSE and NSE respectively backed by a series of sectoral and other indices. SENSEX is showing tremendous increase and fluctuations over a period of time.

Indian capital market has seen a tremendous increase in the number of IPOs also. This in turn is a reflection of the faith all classes of investors show on the future of Indian companies and Indian capital market. The statistics are available in the table mentioned below.

Mutual funds, which is considered to be the safe bet for a less knowledgeable investor is showing an upward trend in investment volume in the last few years. The Indian mutual fund (MF) sector is expecting an addition of approximately 2.2 million new investors throughout 2013-14. The anticipated growth in the number of investors at the Rs 12 trillion (US\$ 187.17 billion)

Table 1

| Year | No. of IPOs | Amount Raised | Issue Succeeded | Issue Failed |
|------|-------------|----------------|-----------------|--------------|
| | | (Rs.in Crores) | | |
| 2007 | 108 | 33,946.22 | 104 | 4 |
| 2008 | 39 | 18,339.92 | 36 | 3 |
| 2009 | 22 | 19,306.58 | 21 | 1 |
| 2010 | 66 | 36,362.18 | 64 | 2 |
| 2011 | 40 | 6,043.57 | 37 | 3 |
| 2012 | 27 | 6,865.94 | 25 | 2 |
| 2013 | 39 | 1,645.87 | 37 | 2 |

Source: SEBI Report, 2013

Insurance business is also showing a growth rate in India. India population normally gives importance to security aspect and because of this most of the insurance companies succeeded in pooling huge funds in the form of premium. The premium collected is normally invested in equity, derivative and money market and this being a major factor in the development of Indian financial market.

Controller of Capital Issues to SEBI (Securities and Exchange Board of India)

Controller of Capital Issues is the regulator of Indian capital market before SEBI. Controller of Capital Issues worked more like a checking mechanism in the capital market. The concentration was on control and monitoring rather than promoting capital market. SEBI is created to develop Indian capital market keeping investor protection in mind. The main functions of SEBI are:

- Protective Function
- Regulatory Function
- Development Function

Protective function involves:

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit deceptive and unfair trade practices

Regulatory function includes:

- Designing guidelines and code of behaviour for the appropriate operation of fiscal intermediaries and company
- Legislation of takeover of all organizations
- Assessing queries and auditing of trades
- Registration of brokers, sub-brokers, merchant investors, etc.
- Levying of chargers
- Performing and exercising abilities
- Register and control credit score.

Agency Development Function includes:

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research function
- Buy-sell mutual funds straight from AMC via an agent

The objectives of SEBI are:

- Safety to the shareholders - The primary goal of SEBI would be to safeguard the attention of individuals of the stock market and supply a wholesome atmosphere for them.
- One of the main objectives, averting malpractices is merely one of these.

Fair and appropriate Markets and maintains a detailed check over the activities of this fiscal intermediaries such as brokers, sub-brokers, etc.

Empowering Investors

In marketing customer is considered to be the king. The same rule is applicable in stock market also. Investors play a major role in in development of the market. In that context empowering investor becomes an important focus area for SEBI. SEBI has established Investor Protection and Education Fund (IPEF) together with the intent of investor education and relevant pursuits. SEBI has given an amount of Rs.10 crore supporting the initial corpus of this IPEF at the SEBI General Fund.

Additionally following amounts will also be credited to the IPEF specifically:

Grants and contributions given to IPEF in the Central Government, State Governments or any institution accepted by SEBI for its role of the IPEF;

Interest or other income obtained by the investments made from the IPEF; along with

Such other quantity that SEBI may define at the interests of these shareholders.

It has become mandatory for any broker to conduct customer investment education sessions so that investors are adequately informed of the market as well as their rights and responsibilities. This will help to reduce the possibility of fraud by a market participant to a great extent.

Product Portfolio

A wide range of products starting from equity to derivatives is traded in the market. The existence of variety of trading options makes the market lucrative from investor's angle. A risky investment options like derivatives may appear to be a hedging tool to reduce risk for an investor who deals with the underlying asset of that derivative. Similarly an aggressive business man may feel mutual funds to be safe investment option. Exporters and importers can use currency derivatives to reduce the risk of FOREX. At the same time a guy normally invests money in bank FD may consider stocks to be an aggressive option to make some better return what the bank offers. In other words the options available will create a wide customer base capable of providing an ideal portfolio option.

Recent Trends in Financial System

Reforms in insurance sector also contributed favourably to the rise of funding market. The criteria for insurance firms seeing their investment in securities marketplace are liberalized. SEBI has created regional offices in metros like Chennai, which increased the assurance and reach of both investors and traders. The regional offices given that a wonderful platform for addressing grievances. SEBI also started promoting informative session for both customers and appointed SEBI accredited coaches for teaching investors. Nowadays all investors will likely be getting a mobile intimation out of NSDL after every purchasing and buying. This assists in preventing scams which has been previously committed by representatives.

The near future of Indian capital market is known to have a stable and long-term growth potential. A few reforms will also be in the pipeline below the notion of this new government. The fundamentals concerning External Commercial Borrowings (ECBs) are anticipated to be liberalized. Currently there's confusion concerning the tax rules about the income earned abroad by an Indian MNC and company is anticipating a definite positive coverage decision regarding this and external remittance limit is also predicted to be increased.

Mobile trading and Internet based trading is expected to Profit within the upcoming few decades. The low transaction cost and technology is expected to play a main part within the upcoming few decades.

India became the 34th nation to combine the Financial Action Task Force (FATF) because its full-priced member. Responsible for setting international standards on India became Observer at FATF in the calendar year 2006. Since that time, India was working towards total scale Purchase of FATF.

Scams in Indian Capital Market

Harshad Mehta Scam

Through the early 1990s, Harshad Mehta, a stock broker, taking place easing trades of ready frontward trades among those Indian banks, acting as a midway. Within this process, he used to raise funding in the banks then capitalise the same from the shares recorded from the BombayStock Exchange to match the stock prices unnaturally. This prosecution, the Sensex transferred in a fast speed and attained 4,500 points speedily. The trade merchants started feeling curious regarding the rapid upsurge of the marketplace. A massive amount of stakeholders started spending their cash in the stock exchange to make swift cash. The report came after the scam hinted at the exploitation of money market also. Harshad Mehta succeeded in looting a few public sector banks also resulting in the regulator advising the Chairman of SBI to go on for leave and actions taken against Canara bank management also.

April 1991 to May 1992, it is projected that roughly five million crore rupees were redirected by Harshad Mehta from the Indian financesector to the Bombay stock market. Following the swindle was disclosed, the Indian stock exchange dropped hence. And as figured, Harshad was not in a situation to settle crores of cash into the banks. Conclusively, Harshad Mehta had been sentenced to jail for 9 years in the honest court and was likewise illegal to execute some share trading action in his or her life.

Ketan Parekh Scam

A chartered accountant called "Ketan Parekh" had comparable apps for example Harshad Metha and directed to a new scam. Much like Harshad Mehta, in addition, he cast off to split the stock charges unnaturally. Apart from the Bombay Stock Exchange, the further stock markets where Ketan Parekh aggressively functioned were both the Calcutta Stock Exchange along with also the Allahabad Stock Exchange.

However, Parekh utilized to cope habitually in ten explicit stocks, also referred to as the K-10 shares.

He implemented the perception of round trading to bloating their inventory rates. You may be amazed to understand that the sponsors of many businesses compensated him to improve their stock prices at the marketplace. Anyways, following the Union Funding in 2001 was publicized that the Sensex dropped by 176 points. The Government of India completed ansevere research into this situation.

Satyam Scam

The Chairman of Satyam Computer Services Limited (SCSL), Mr. Ramalinga Raju confessed to SEBI of the influence performed by him in the accounts of the Business. This communal outrage has been completed on from 2003 till 2008. It is projected that the swindle occurred for approximately five thousand crores of money balances as the company by minding earnings.

Drastically after this episode. Finally, CBI liable for steering the research into the situation. They enrolled 3 tight charge sheets out of Satyam. Then, these 3 tight prices were combined into a single charge sheet.

Back in April 2009, Raju and others included in the swindle had been penalized to prison in the court. Thus, Mahindra Group acquired SCSL also it had been also renamed as Mahindra Satyam. It then merged in Tech Mahindra at 2013 and the business is performing well in these decades.

Future of Indian Capital Market

Capital Markets will probably seem based on comments by customers, most have gloomily referred to as a declining capital markets arena, over-regulation along with the collapse of traditionally strong financial centres such as London and New York. This brand new equilibrium comprises: government intervention (because memories of their fiscal and sovereign debt crises vanish), conventional fiscal axis of electricity further solidifying their ranks on the top, and also the planet looking for stability and predictability in the context of increasingly more uncertain financial scenarios. What's more, a lot of the landscape where most monetary institutions function will alter significantly. This shift will come from financial and government policies, from invention, operational restructuring, engineering, from more intelligent and more demanding clients, businesses harnessing solid info from continuing growth of this shadow banking method.

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